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Testimony of the American Council of Life Insurers  
Before the Insurance and Real Estate Committee  
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Senate Bill 141 – An Act Concerning Disability Policy Offsets and Dependent Children

Senator Crisco, Representative Fontana, and members of the Insurance and Real Estate Committee, we appreciate the opportunity to offer the following comments in opposition to Senate Bill 141 – An Act Concerning Disability Policy Offsets and Dependent Children.

The American Council of Life Insurers (ACLI) opposes the passage of Senate Bill 141. If passed, SB 141 would prohibit insurers offering disability income policies from offsetting for Social Security Disability Insurance (SSDI) benefits paid to or on behalf of dependents. Moreover, the proposed legislation would restrict other allowable offsets so that insurers could only offset for benefits payable as a result of a person's disability.

Though our testimony focuses on the prohibition of offsetting of SSDI benefits paid to or on behalf of dependents; those same arguments apply for all offset restrictions included in this legislation.

Passage of the bill may result in an increase in the cost of providing disability coverage for groups and individuals in Connecticut. This means that employers and consumers may be unable to afford to purchase or to retain their disability coverage. While the bill seeks to maximize disability benefits for the support of dependent children of disabled Connecticut workers, it was written without an adequate understanding of the function of disability income insurance, and will actually have an effect opposite to what the sponsor intended.

There are several types of disability income insurance, including Social Security Disability Insurance and private group and individual disability insurance. Private disability income insurance is designed to replace a percentage of pre-disability earnings. This replacement income – *including what is received from other sources* – is equal to some pre-designated percentage of a claimant's pre-disability income, generally approximately 60 percent of pre-disability income. Thus, long-term group disability and individual disability policies are typically structured so that a claimant who satisfies the contractual criteria for disability would receive a benefit paying a percentage of their pre-disability earnings, less an offset for certain defined sources of other income. In addition, since the idea is to replace income used by the insured to support his or her dependent children, it makes sense to adjust the private disability benefits to reflect Social Security disability benefits received by or on behalf of the insured's dependent children when those benefits hinge on the insured's disability.

If SB 141 were to pass, a person's aggregate income, including benefits paid to or on behalf of dependent children based on the insured's disability, could approach or even exceed his or her pre-disability earnings resulting in an over-insurance situation. As you might expect, when over-insurance exists, more individuals tend to go out on disability and they stay out on claim longer than they otherwise would. Over-insurance could discourage claimants, once out on claim, from returning to work. As a result of SB 141, insurers would likely be forced to account for this either in pricing or in the plan design.

For private and public employers who provide their employees group disability insurance, this bill could well mean increased costs at a time that they can ill afford it. Municipalities and public school systems with current group disability policies would likely have to reassess how to fund these mandated changes. Connecticut employers may not have the opportunity to purchase lower cost coverage thus putting them at a competitive disadvantage over companies in all other states allowing offsets.

As to the individual disability insurance market, this bill could eliminate the full range of choices that Connecticut consumers are currently afforded when purchasing disability products to meet their financial security needs.

The bottom line is that the dependent offset bill could increase rates for all purchasers of disability income coverage, not just workers with dependent children. In addition to possible adverse consequences for Connecticut consumers, the bill could lead to reduced access to coverage and leave many without private disability insurance, which means that more Connecticut residents would be dependent on public assistance programs. Currently, less than 40% of the U.S. labor force has private group or individual disability income protection. Passage of this bill could result in more uninsured workers. With the market already underinsured and under-protected, it must be questioned whether this bill reflects sound public policy.

A combination of public and private disability income coverage can provide critical financial support in a time of need. In order for the greatest number of people to be covered, the benefits must remain affordable. Offsets allow private disability and public programs to work in conjunction to provide the highest amount of benefits while avoiding situations of duplication or over-insurance to occur. ACLI opposes legislation which may increase the cost of disability programs for employers and employees; making coverage less available to those who need income protection options the most.

The American Council of Life Insurers represents more than 300 legal reserve life insurer and fraternal benefit society member companies operating in the United States. These member companies represent over 90 percent of the assets and premiums of the U.S. life insurance and annuity industry. There are 241 ACLI member companies licensed to do business in Connecticut, accounting for 90 percent of the ordinary life insurance in force in the state. ACLI member companies are major participants in the disability income insurance market in Connecticut.

Thank you for considering our position in opposition to SB 141 – An Act Concerning Disability Policy Offsets and Dependent Children. Please contact Kate Kiernan at 202-624-2463 with questions.